

**SOLITUDE IMPROVEMENT DISTRICT
A SPECIAL SERVICE DISTRICT**

Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
DECEMBER 31, 2007**

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**To The Board of Trustees
Solitude Improvement District, A Special Service District**

Independent Auditors' Report

We have audited the accompanying basic financial statements of Solitude Improvement District, a Special Service District (the District), as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Solitude Improvement District, a Special Service District as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 2 to the financial statements, certain errors resulting in an understatement of previously reported capital assets as of December 31, 2006, were discovered by management of the District during the current year. Accordingly, an adjustment has been made to retained earnings as of December 31, 2006, to correct the error.

Schmitt, Giffeler, Smith & Co.

April 7, 2008

Management's Discussion and Analysis

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis
December 31, 2007**

This section of the Solitude Improvement District, a Special Service District (the District) report presents management's discussion and analysis of the District's financial performance during the year ended December 31, 2007. Please read it in conjunction with the District's basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

As Management of the Solitude Improvement District, Big Cottonwood Canyon, Salt Lake County, Utah, (District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2007. The District prepares its financial statements on the accrual basis of accounting. Revenues are recognized as earned and expenditures are recorded when incurred. The District receives funds from four principal sources, monthly user fees, connection fees, dump station fees and interest income. Bonds issued by the District require certain amounts be maintained to comply with bond terms. These restricted cash accounts are maintained as separate accounts at the Utah State Treasurer's office in PTIF accounts. (Public Treasurer Investment Funds) The State Treasurer invests these PTIF funds in U.S. Government securities and investment grade Corporate bonds to produce a portion of the interest income received by the District.

- Total Assets of the District increased \$347,623 as of December 31, 2007, from the prior year, principally, due to depreciation.
- Total revenue of the District increased \$387,181 or 65% over the prior year.
- The District's debt obligations of \$1,883,016 as of December 31, 2006 were reduced by bond payments of \$295,380. The total debt obligation as of December 31, 2007 was \$1,587,636.

OVERVIEW OF THE SOLITUDE IMPROVEMENT DISTRICT

The Solitude Improvement District was created August 4, 1982 by Resolution No. 969 of the Salt Lake County Commission for the purpose of sewer, water and flood control, but initially, for the construction, operation and maintenance of a sewer system in Big Cottonwood Canyon. The District operates as an "Independent District" and not a component unit of any other governmental entity and the District has no subordinate component unit.

A three member Board of Trustees govern the District. They have staggered four year terms and are appointed by the Mayor of Salt Lake County with the advice and consent of the Salt Lake County Council.

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2007**

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements consist of two parts – management's discussion and analysis and the basic financial statements. The District summary financial statements reflect the effect of accounting transactions for the year and include notes to financial statements.

- The District financial statements provide information about the District's overall financial position and results from operations. These statements, which are presented on the accrual basis, consist of the comparative Statements of Net Assets, the comparative Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows.
- The financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the District statements.

The District statements report information using accounting methods similar to those used in private sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid.

The District's presentation, using comparative statements for the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows is one way of measuring changes in the financial statements and to evaluate the District's overall financial position. This is much the same is done in the private sector.

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**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2007**

OVERVIEW OF DISTRICT FINANCIAL POSITION

The tables identified below summarize information presented in the financial statements:

Solitude Special Service District's NET ASSETS

	2007	2006 (Restated)
Total current assets	\$ 1,297,371	\$ 1,236,124
Capital assets	4,635,711	4,350,079
Other assets	2,505	1,761
Total Assets	<u>5,935,587</u>	<u>5,587,964</u>
Current liabilities	347,699	339,389
Long-term liabilities	<u>1,492,855</u>	<u>1,808,791</u>
Total liabilities	<u>1,840,554</u>	<u>2,148,180</u>
Net assets invested in capital assets, net of related debt	3,048,075	2,467,063
Net assets restricted for debt service and emergency repairs	420,000	420,000
Unrestricted net assets	<u>626,958</u>	<u>552,721</u>
Net assets	<u>\$ 4,095,033</u>	<u>\$ 3,439,784</u>

Solitude Special Service District's CHANGE IN NET ASSETS

Operating revenues	\$ 542,574	\$ 482,616
Operating expenses	<u>325,260</u>	<u>299,421</u>
Operating income	217,314	183,195
Nonoperating revenues	<u>437,935</u>	<u>110,712</u>
Change in net assets	655,249	293,907
Net assets, beginning of year	<u>3,439,784</u>	<u>3,145,877</u>
Net assets, end of year	<u>\$ 4,095,033</u>	<u>\$ 3,439,784</u>

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2007**

OVERVIEW OF DISTRICT FINANCIAL POSITION, Continued

A portion of the District's net assets (10 percent at December 31, 2007) reflects its investment in assets restricted for debt service. These assets will be used over time to make debt service payments. The net assets representing investments in capital assets net of related debt consist of land and easements, sewer pipes, and equipment and fixtures less any related debt used to acquire those assets that are still outstanding.

LONG TERM DEBT

The District financed the construction of its capital improvements with (1) Sewer Revenue Bonds, Series 1990 in the original principal amount of \$2,993,000, bearing interest at 3% per annum and (2) Sewer Revenue Bonds, Series 1993 issued in the original amount of \$2,995,000, bearing interest at 0% per annum, each with escalating principal payments. These two original bonds totaled \$5,988,000. In 1995, the District, with bond holder consent, reissued these two bonds as (1) Sewer Revenue Refunding Bonds, Series 1995A, in the aggregate principal amount of \$2,649,000, bearing interest at 0% per annum and (2) Sewer Refunding Bonds, Series 1995B, in the aggregate principal amount of \$2,467,000, bearing interest at 0% per annum, each with level term principal payments. The 1995 Refunding Bonds totaled \$5,116,000. The total owing on both bonds as of December 31, 2007 is \$1,587,636. In addition, the District is in compliance with all bond terms and covenants.

CAPITAL ASSETS

The proceeds of the aforementioned bonds were used primarily to design and construct the sewer system and pump stations in Big Cottonwood Canyon. The sewer pipe is Hydropolyethylene, SDR 17 (HDPE) constructed in a ten (10") size from the mouth of the canyon to the Solitude Ski Resort and eight (8") size from the Solitude Ski Resort to the Brighton Circle. All subsequent collector lines in the various communities in the canyon are constructed with an eight (8") inch size. All lateral connections to homes are required to be four (4") inch HDPE SDR17 pipe. While the product life of the pipe is represented to be not less than seventy-five (75) years, the Internal Revenue Service depreciation schedule for sewer lines is fifty (50) years. The main sewer lines and collector systems were constructed between 1990 and 1995.

**Solitude Improvement District
Special Service District
Management's Discussion and Analysis, Continued
December 31, 2007**

MAINTENANCE OF CAPITAL ASSETS

The District has a maintenance contract with the Cottonwood Improvement District who provides manpower, equipment and support for the maintenance of the sewer lines. Cottonwood utilizes a maintenance schedule for the District similar to the one utilized by themselves for their own district. Extraordinary maintenance is billed to the District which expenses such charges as incurred. The District also receives a periodic report of condition of sewer manholes which the District uses to hire a third party for such repairs necessitated by broken bolts, raising manholes to grade or damage caused by road maintenance equipment. These repairs are expensed when incurred. Additionally, the District has set aside \$140,000 in separated Emergency Repair Reserves for unexpected circumstances.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Districts' accountability for all those interested. If you have additional questions regarding financial information, you may contact our office in writing at the following address:

Solitude Improvement District
P.O. Box 71350
Salt Lake City, Utah 84171-0350

Financial Statements

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Statements of Net Assets
December 31, 2007 and 2006**

	<u>2007</u>	<u>2006 (Restated)</u>
<u>ASSETS</u>		
Current assets:		
Cash and investments	\$ 857,675	\$ 806,244
Restricted cash and investments	420,000	420,000
Accounts receivable	19,696	9,880
Total current assets	1,297,371	1,236,124
Capital assets		
Depreciable assets, net, as restated	4,600,711	4,315,079
Land and water rights	35,000	35,000
Other assets, net	2,505	1,761
	<u>\$ 5,935,587</u>	<u>\$ 5,587,964</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 31,763	\$ 23,453
Current portion of deferred revenue	20,556	20,556
Current portion of long-term debt	295,380	295,380
Total current liabilities	347,699	339,389
Long term portion of deferred revenue	200,599	221,155
Long-term debt, net of current portion	1,292,256	1,587,636
Total liabilities	<u>1,840,554</u>	<u>2,148,180</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt, as restated (see Note 2)	3,048,075	2,467,063
Restricted for debt repayment and emergency repairs	420,000	420,000
Unrestricted	626,958	552,721
Net assets	<u>4,095,033</u>	<u>3,439,784</u>
	<u>\$ 5,935,587</u>	<u>\$ 5,587,964</u>

See accompanying notes and independent auditors' report.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006 (Restated)</u>
Operating revenues:		
Sewer connection fees	\$ 59,537	\$ -
Sewer operating and maintenance fees	181,026	179,169
Sewer debt service fees	298,711	300,747
Dump station fees	3,300	2,700
Total operating revenues	<u>542,574</u>	<u>482,616</u>
Operating expenses:		
Engineering and sewer processing	103,908	89,732
Operations, maintenance and repairs	77,111	68,064
Management and finance	15,596	15,665
Legal and professional services	7,330	7,373
Depreciation, as restated	121,315	118,587
Total operating expenses	<u>325,260</u>	<u>299,421</u>
Operating income	<u>217,314</u>	<u>183,195</u>
Non-operating revenues:		
Interest income	57,054	49,523
Other income	380,881	61,189
Total non-operating revenues	<u>437,935</u>	<u>110,712</u>
Change in net assets	<u>655,249</u>	<u>293,907</u>
Net assets, beginning of year, as restated	<u>3,439,784</u>	<u>3,145,877</u>
Net assets, end of year	<u>\$ 4,095,033</u>	<u>\$ 3,439,784</u>

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Statements of Cash Flows
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006 (Restated)</u>
Cash flows from operating activities:		
Cash received from customers	\$ 532,757	\$ 484,860
Cash paid to employees and suppliers	<u>(196,379)</u>	<u>(185,500)</u>
Net cash from operating activities	<u>336,378</u>	<u>299,360</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(26,346)	(4,651)
Deferred revenue	(20,556)	(20,556)
Debt payments	<u>(295,380)</u>	<u>(295,380)</u>
Net cash from capital and related financing activities	<u>(342,282)</u>	<u>(320,587)</u>
Cash flows from investing activities:		
Interest received	57,335	49,523
Refund received	<u>-</u>	<u>61,189</u>
Net change in cash	51,431	89,485
Cash - beginning of period	<u>1,226,244</u>	<u>1,136,759</u>
Cash - end of period	<u><u>\$ 1,277,675</u></u>	<u><u>\$ 1,226,244</u></u>
Cash reported on the balance sheet:		
Cash	\$ 857,675	\$ 806,244
Restricted for debt repayment and emergency repairs	<u>420,000</u>	<u>420,000</u>
	<u><u>\$ 1,277,675</u></u>	<u><u>\$ 1,226,244</u></u>

See accompanying notes and independent auditors' report.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Statement of Cash Flows, Continued
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006 (Restated)</u>
Reconciliation of operating income to cash flows provided by operating activities:		
Net operating income	\$ 217,314	\$ 183,195
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	121,314	118,587
Changes in operating assets and liabilities:		
Accounts receivable	(9,816)	2,244
Prepaid expenses	(744)	209
Accounts payable	8,310	(4,875)
Total adjustments	<u>119,064</u>	<u>116,165</u>
Net cash from operating activities	<u>\$ 336,378</u>	<u>\$ 299,360</u>

**SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING
AND INVESTING ACTIVITIES:**

During 2007 \$380,600 was contributed by developers developing infrastructure within the District's boundaries. These noncash transactions were included in capital assets and also in other income.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements
December 31, 2007 and 2006**

(1) Summary of Significant Accounting Policies

This summary of significant accounting policies of Solitude Improvement District, a Special Service District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles, and have been consistently applied in the preparation of these financial statements.

Operations

The District was created August 4, 1982 by Resolution No. 969 of the Salt Lake County Commission for the purpose of sewer, water and flood control, and initially, for the construction and operation of a sewer system in Big Cottonwood Canyon.

Component Unit

The District has considered GASB Statement No. 14 and has determined the District is not a component unit of any other governmental entity and that the District has no subordinate component units.

Accounting Policies

The District operates as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the public on a continuing basis are financed through user charges. Revenue from sewer fees is recorded based on monthly usage at stated rates. Other revenues are recorded when services are performed.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(1) Summary of Significant Accounting Policies, Continued

Accounting Policies, Continued

The District has adopted the provisions of GASB No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Disclosures. These statements require governmental entities with more than one governmental activity to present additional accrual-based statements to better communicate the financial status of the entity. The significant changes to the District's financial statements resulting from the adoption of these statements are the Management's Discussion and Analysis and the titles and presentation of the financial statements to conform to the net asset presentation.

The District follows all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Budgetary Policy

Budgetary procedures for the District have been established by Utah State Statute in Title 17A – Special Districts. The District uses the same accounting method for preparing the budget as is used for financial reporting. The financial reports reflect the following budgetary standards:

- For the fiscal year beginning January 1, the District trustees prepare a proposed a budget which is presented to the Utah State Auditor on or before December 31.
- By resolution, the District trustees legally adopt a budget prior to December 31, after a public hearing has been held.
- Once adopted, the budget can be amended to any extent by subsequent trustee action. Reductions in appropriations can be approved by the trustees, but increased appropriations require a public hearing prior to amending the budget.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(1) Summary of Significant Accounting Policies, Continued

Budgetary Policy, Continued

- Any adjustments in estimated revenue and revisions of appropriations due to operational changes in categorical program funding are integrated into the amended budget approved by the trustees.
- A final amended budget is legally approved by the trustees and the Utah State Auditor prior to the end of the fiscal year.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expense is recorded when a liability is incurred, regardless of the timing of the related cash flows.

Federal and State Income Taxes

The District is an independent political subdivision of Salt Lake County, Utah, and is exempt from the payment of Federal and State income taxes.

Cash Equivalents

The District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consists of various fees due from the users of its systems. Based on the payment history and the ability of the District to lien property, management believes that no allowance for possible uncollectible amounts is necessary.

Depreciation and Amortization

The costs of property and equipment are depreciated using the straight-line method over estimated useful lives ranging from 5 to 60 years.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(1) Summary of Significant Accounting Policies, Continued

Comprehensive Income

Comprehensive income approximates net income for the years ended December 31, 2007 and 2006.

Estimations and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Prior Year Restatement of Financial Statements

These accompanying financial statements include the impact of a restatement of the accounting for capital assets contributed to the District by developers developing infrastructure within the District's boundaries. These developers contributed the capital assets to the District between 1999 and 2003, with the value of the contributed assets never being recorded on the District's financial statements. During 2007 the District concluded that the appropriate accounting for the contributions would have been to record the contributed capital assets, at the estimated cost to the developers, as capital assets and other income in the year the assets were received.

The accompanying consolidated financial statements reflect the impact of inclusion of the estimated cost of the assets to the developers within the District's capital assets. Management has estimated the costs of these assets to be \$550,000. Therefore, the impact of the restatement was to record additional capital assets of \$550,000 and associated accumulated depreciation for depreciation that would have occurred prior to 2007 of \$59,121, resulting in an increase to net assets of \$490,879.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(3) Deposits and Investments

Deposits and investments for the District are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, “the Act”) and by the rules of the Utah Money Management Council (“the Council”). Following are discussions of risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

As of December 31, 2007, \$213,250 of the District’s bank balance of \$313,250 was uninsured and uncollateralized. As of December 31, 2006, \$206,624 of the District’s bank balance of \$306,624 was uninsured and uncollateralized.

Credit Risk

Investments. Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District’s policy for limiting the credit risk is to comply with the Utah Money Management Act.

The District is authorized to invest in the Utah Public Treasurer’s Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains, and losses, net of administrative fees, of the PTIF are allocated based upon the participant’s average daily balances.

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(3) Deposits and Investments, Continued

Credit Risk, Continued

As of December 31, 2007 and 2006, the District had \$539,168 and \$482,494, respectively, invested directly with the PTIF. In addition, the District had as of December 31, 2007 and 2006 respectively, \$430,001 and \$430,001 of debt service reserve, bond sinking fund, and bond proceeds invested with the PTIF through Wells Fargo Corporate Trust, who acts as trustee for these funds. The amounts invested with the PTIF are reported at fair value. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Utah Money Management Act. The Act requires that the remaining term to maturity of the investment may not exceed the period of availability of the funds to be invested.

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**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(4) Capital Assets

Capital asset activity for the year ending December 31, 2007 is as follows:

	Balance January 1, 2007	Additions	Dispositions / Transfers	Balance December 31, 2007
Capital assets not being depreciated:				
Land and easements	\$ 35,000	\$ -	\$ -	\$ 35,000
	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Depreciable assets:				
Sewer phase I	3,011,541	-	-	3,011,541
Sewer phase II	665,200	-	-	665,200
Sewer phase III	1,794,754	-	-	1,794,754
Contributed assets	550,000	380,600	-	930,600
Sewer So. Side Silver Fork	-	12,000	-	12,000
Leasehold Improvements	-	9,493	-	9,493
Furniture and fixtures	14,590	4,853	-	19,443
	<u>6,036,085</u>	<u>406,946</u>	<u>-</u>	<u>6,443,031</u>
Accumulated depreciation	<u>(1,721,006)</u>	<u>(121,313)</u>	<u>-</u>	<u>(1,842,320)</u>
	<u>4,315,079</u>	<u>285,633</u>	<u>-</u>	<u>4,600,711</u>
	<u>\$ 4,350,079</u>	<u>\$ 285,633</u>	<u>\$ -</u>	<u>\$ 4,635,711</u>

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**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(4) Capital Assets, Continued

Capital asset activity for the year ending December 31, 2006 was as follows:

	Balance January 1, 2006 (Restated)	Additions	Dispositions / Transfers	Balance December 31, 2006 (Restated)
Capital assets not being depreciated:				
Land and easements	\$ 35,000	\$ -	\$ -	\$ 35,000
	35,000	-	-	35,000
Depreciable assets:				
Sewer phase I	3,011,541	-	-	3,011,541
Sewer phase II	665,200	-	-	665,200
Sewer phase III	1,794,754	-	-	1,794,754
Contributed assets, as restated	550,000	-	-	550,000
Furniture and fixtures	9,938	4,652	-	14,590
	6,031,433	4,652	-	6,036,085
Accumulated depreciation	(1,602,418)	(118,587)	-	(1,721,006)
	4,429,015	(113,935)	-	4,315,079
	\$ 4,464,015	\$ (113,935)	\$ -	\$ 4,350,079

(5) Accrued Liabilities

Accrued liabilities consist of accrued wages and benefits, and professional fees.

(6) Long-Term Debt

A summary of long-term debt activity for the year ended December 31, 2007 is as follows:

	Balance January 1, 2007	New Debt Issued or Acquired	Principal Payments	Balance December 31, 2007	Due Within One Year
Debt payable	\$ 1,883,016	\$ -	\$ 295,380	\$ 1,587,636	\$ 295,380

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(6) Long-Term Debt, Continued

A summary of long-term debt activity for the year ended December 31, 2006 was as follows:

	Balance January 1, 2006	New Debt Issued or Acquired	Principal Payments	Balance December 31, 2006	Due Within One Year
Debt payable	\$ 2,178,396	\$ -	\$ 295,380	\$ 1,883,016	\$ 295,380

On July 26, 1995, the District obtained approval from the Water Pollution Control Committee (WPCC) of the State of Utah to issue \$2,649,000 in Sewer Revenue Refunding Bonds, Series 1995A and \$2,467,000 in Sewer Revenue Refunding Bonds, Series 1995B. At December 31, 1995, \$2,347,000 of the Series 1995B refunding bonds had been issued, with a final advance \$29,716 occurring April 1, 1996. The refunding bonds bear no interest and payments are due annually beginning January 1, 1996. Principal is due annually through 2016 for the Sewer Revenue Bonds, Series 1995A, and through 2018 for the Sewer Revenue Bonds, Series 1995B.

The following notes and bonds payable issued by the District are outstanding as of December 31, 2007 and 2006:

Series	Original Issue	Interest Rate	Maturity Date	Principal Outstanding	
				2007	2006
Bonds Payable					
Sewer Revenue					
1995A	\$ 2,993,000	None	2011	\$ 686,920	\$ 859,300
1995B	2,376,716	None	2013	900,716	1,023,716
				1,587,636	1,883,016
			Less current portion	(295,380)	(295,380)
				<u>\$ 1,292,256</u>	<u>\$ 1,587,636</u>

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**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(6) Long-Term Debt, Continued

As of December 31, 2007, the maturities of the bonds payable are as follows:

Years Ending December 31,	Bonds Payable		Service Requirement
	Principal	Interest	
2008	\$ 295,380	\$ -	\$ 295,380
2009	296,380	-	296,380
2010	296,380	-	296,380
2011	293,780	-	293,780
2012-13	405,716	-	405,716
	<u>\$ 1,587,636</u>	<u>\$ -</u>	<u>\$ 1,587,636</u>

(7) Related Party Transactions

Major Customer

At December 31, 2007 and 2006, Solitude Resort, an entity related by virtue of a trustee who has ownership in the Resort, comprised 18% and 27%, respectively, of total operating revenues.

Operating Lease

During 2006, the District leased office space from Solitude Ski Resort Company (the Resort), an entity related by virtue of a trustee who has ownership in the Resort. This lease expired December 31, 2006. Rent paid was \$1,200 for the year ended December 31, 2007.

(8) Operating Lease

The District leases office space from Brighton Ski Resort Company. The lease is month-to-month, for \$300 per month. Rent paid in 2007 was \$1,200.

(9) Defined Benefit Pension Plan

The District contributes to the Local Governmental Non-contributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (the System). The System provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes. No employee

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(9) Defined Benefit Pension Plan, Continued

contributions are required in System. The District was required to contribute 11.62% as of December 31, 2007 for members in the System. The contribution requirements of the System are authorized by the Board.

The District's contributions to the System for each year December 31, 2007 and 2006 were \$5,621 and \$5,493, respectively.

The District also participates in the 401K plan of the Utah Retirement Systems, which covered all full-time employees. The District did not contribute to the plan during 2007 and 2006.

(10) Insurance Policies

A list of insurance policies in force at December 31, 2007 is as follows:

<u>Name of Issuer</u>	<u>Expiration Date</u>	<u>Risk Covered</u>	<u>Amount of Policy</u>
Utah Local Governments Trust	Continuous	General Liability and Property, Errors and Omissions	\$ 2,000,000
Utah Local Governments Trust	Continuous	Non-owned and Auto Liability	\$ 2,000,000
Utah Local Governments Trust	June 30, 2008	Workman's Comp	\$ 100,000
Old Republic Surety Company	June 16, 2008	Employee Dishonesty	\$ 880,000

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**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Notes to Financial Statements, Continued
December 31, 2007 and 2006**

(11) Sewer Rates and Connections

Number of sewer connections both inside and outside the tax boundaries of the District at December 31, 2007 (in Equivalent Residential Units - ERU's)	1,222
Number of sewer connections within the tax boundaries of the District at December 31, 2007 (in Equivalent Residential Units - ERU's)	467
Number of applications for sewer service on hand at December 31, 2007	-
Rates and charges imposed for sewer service per ERU, per	\$ 36

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**The Governing Board of
Solitude Improvement District, A Special Service District**

We have audited the basic financial statements of Solitude Improvement District, a Special Service District (the District), as of and for the year ended December 31, 2007, and have issued our report thereon dated April 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. However, as discussed below, we identified, in a prior year, a certain deficiency in internal control that we consider to be control deficiency.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified one material weakness; see finding 07-1.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the County Commission and is not intended to be and should not be used by anyone other than these specified parties.

Schmitt, Giffiter, Tricar, Co.

April 7, 2008

**SOLITUDE IMPROVEMENT DISTRICT
SPECIAL SERVICE DISTRICT
Schedule of Findings
December 31, 2007**

06-1 Internal Control

Condition: All accounting procedures are performed by one individual. The lack of a segregation of duties does not allow for proper oversight of accounting functions.

Recommendation: We recommend that the District review the current procedures and determine if a cost effective solution can be implemented to mitigate this risk.

Status: The District has determined the implementation of this finding to not be cost effective.

07-1 Contributed Capital Assets

Condition: Prior to 2006 the District received capital asset contributions from developers. The contributed assets should have been recorded as revenue and capital assets in the year they were received, but were not. The error resulted in a restatement of the December 31, 2006 financial statements.

Recommendation: We recommend that the District develop policies and procedures to ensure contributed assets are properly recorded.

Management Response: The District has developed policies and procedures that will ensure contributed assets are properly recorded.

INDEPENDENT AUDITORS' REPORT ON THE STATE OF UTAH LEGAL COMPLIANCE

The Governing Board Solitude Improvement Special Service District

We have audited the basic financial statements of Solitude Improvement District, a Special Service District (the District), for the year ended December 31, 2007, and have issued our report thereon dated April 7, 2008. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues

The District did not receive any major or non-major state grants during the year ended December 31, 2007.

The management of Solitude Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2007.

This report is intended solely for the information and use of the management of the District and the various federal and state funding and audit agencies. However, this report is a matter of public record, and its distribution is not limited.

Schwartz, Guffey, Inc. Co.

April 7, 2008